



# TERRA RESOURCES LLC

"Mining Is Our Business"

5/003/052

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AUG 31 2000

DIVISION OF  
OIL, GAS AND MINING

August 29, 2000

John T. Blake  
Mineral Resource Specialist  
State of Utah  
School & Institutional  
Trust Lands Administration

Dear Mr. Blake,

I am in receipt of your letters as well as the fax I requested that you send to me in regards to the letter dated May 5, 2000. We need to start with the letters I found on my door from fedex on August 20, 2000. The first letter is concerning Notice of Breach of Article XII. Firstly, I never received your certified letter, which I am sure you are aware of. Secondly, as per our previous agreement, I did receive a letter of waiver from the surface owner Max Kunzler, which you were given a copy of. If there is a problem with the original letter of waiver, and you are going to require a bond, then I will work with you to get that put into place. But it will take a few weeks to get it done.

The next issue is on the production and royalty issue that we discussed last week on the side of the road. As I stated, I was under the understanding that I was going to be on a quarterly basis. That is my mistake, and we are getting everything ready to submit to you. But one thing to consider is that I did not receive that letter until the 20<sup>th</sup> of August either. So I request that all of the issues at hand be resolved before the 20<sup>th</sup> of September.

We have taken down all of the pallets that have left the property. Each has a number and a weight attached. We are in this thing for the long haul, and want to be an example operator in the area. I think that you think we have tried to do some things sneaky or under handed. That is not the case, and I will argue to the end.

As per ML48357-MP, you and I discussed from the start the potential for building stone in that area. That is why I tied up 200 acres as opposed to 80 acres where the white is. And that is where the \$1.50 per ton or 10% royalty came from in our agreement. Lynn Kunzler at Oil, Gas & Mining was aware of this from the onset also. We were approved on that little knob we mined on the North side of the road by D.O.G.M.. Yes it was our intent to start on the North with a crushing operation, but the operator we were going to use, had delays from the Utah State D.O.T., and was unable to move onto the pass to crush for us. After we got started on the south side, we got so far and encountered a lot of dirt and decomposed material in about a 12 foot depth. I at that point talked with Lynn Kunzler and informed him we were moving across the canyon, and started to try and work out a deal to turn our one permit into two separate permits,

"We Are Environmentally Friendly"

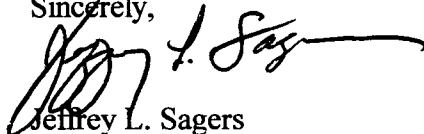
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so we could expand both areas. The separate permits were denied, and we have started the paper work for a large mine plan. I guess what I am saying, is that it was no secret what we were doing, and we were not trying to do something sneaky or illegal. Our lease with you states that we are able to mine quartzite. That is what we did, and you and I both had discussed it prior this year. And I did not get a letter from you requesting any further information on it. So it is an unjust and unfair step that you are taking in trying to cancel the lease. If anything should be done, it should be clearer language on your part in the lease, and we redo it. There has been a lot of time and money spent in getting the north side to where it is, and there is a lot of inventory there on site. Most of the production from that side is still there on site. You told me that we had to have everything off of the site or we would be in trespass and lose it all after the 4<sup>th</sup> of September. It is impossible for me to move all of the material that fast to another location. You also said you wanted all of the royalties for that material immediately or forfeit the material. That is also impossible and unfair of you to ask at this juncture. We are a new company trying to get on our feet. Start up costs are phenomenal in this type of business. Especially if you buy good equipment.

So the bottom line here is, that I need more time to meet your demands in regards to both sites. And that I do not, and will not agree for you to cancel my lease on the north side. I have my future riding on the quarries up there, and have been marketing material from that site nationwide. Not only the building stone, but also the white aggregate for precast and decorative rock. And I have contracts forthcoming with a major store chain that is nationwide. The cancellation would be death for me. If I have to fight it through the legal system I will. The only thing I am in the wrong in, is the royalty payments that I thought were due each quarter. And they are going to be paid as soon as we have everything squared away with the pallet count and the type of material each pallet is.

I would appreciate your help and cooperation in regards to this matter.

Sincerely,



Jeffrey L. Sagers

cc: Lynn Kunzler  
David T. Terry